

# Ending Non Insurance

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AUSTRALIAN DEMOCRATS ACTION PLAN  
ENDING NON INSURANCE  
TAXATION FINANCE & CORPORATE AFFAIRS

*The loss of a house and its contents is catastrophic for the families and individuals concerned. It is often a public cost, and not just a private cost. An alarming 1.8 million Australian households are without house and contents insurance, and risk is growing. The onset of climate change means an ever increasing risk of adverse weather events, and expert forecasts show the number and intensity of extreme weather events will increase. As the risk of flood, cyclones and storms intensifies, Australians face the task of protecting their homes and assets from these effects. Insurance must play a key role in preparing Australians for loss and for managing its cost for individuals, communities and governments.*

*" I recommend that state and territory governments abolish stamp duty on general insurance products...that those states that have not already done so abolish fire services levies on insurers...that state and territory governments exclude the cost of the GST for the purposes of calculating stamp duties or any other state or territory levies that are imposed on insurance premiums."*

**The Hon Justice Owen  
Commissioner, The HIH  
Royal Commission**

## Our Action Plan

- Campaign for a Productivity Commission inquiry to determine the best way of ensuring adequate and essential house and contents insurance becomes both universal and affordable; (and to examine 'force majeure' provisions);
- Campaign for joint industry/government research to identify and map house and contents non-insurance 'black spots' and devise methods to significantly reduce non-insurance;
- Campaign for State/Territory and Commonwealth governments to implement the recommendation of the HIH Royal Commission to remove all taxes on insurance products, subject to the identification and provision of alternative revenue streams;
- To support financial literacy programmes for Australians, including with regard to essential house and contents insurance;
- Noting that emergency services are essential to risk reduction, to promote an equitable and transparent model of funding for emergency services, with the model of the Emergency Services Levy in WA being the template.

## Issue one: non-insurance

According to the Insurance Council, approximately 1.8 million households in Australia are without house and contents insurance. This means about one in four Australians face the risk of a complete loss in an adverse weather or other event.



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Non insurance is a significant problem across the community but its impact is strongest in certain sections. Hardest hit by the lack of insurance are:

- Australians in rental accommodation; particularly, those in public housing;
- The young;
- Those with lower levels of education;
- Australians not in full time work;
- Australians from a non English speaking background.

Improving access to insurance by making it more affordable will help individuals and communities adapt to the risk of loss. Governments can make a key contribution to affordability by minimizing or removing taxation on essential insurance products.

## Issue two: Taxes on insurance

According to the Australian Bureau of Statistics, total State taxes on insurance products amounted to \$3.6 billion in 2005/06 or 8% of all State taxes. State governments collect more in insurance premium taxes than they do in taxes on gaming machines or taxing casinos.

The cost of insurance taxes for consumers is higher than expected because of the effects of tax on tax stacking. In NSW and Victoria, a purchaser of insurance would pay their insurance premium, then a levy for funding the fire service in their state (FSL). After paying the FSL, the consumer would pay 10% for GST and then following the payment of the GST, the consumer would face the additional impost of stamp duties. Together, these tax on tax effects can add over 40% to the cost of a residential insurance policy in NSW and Victoria and over 60% to a small business insurance policy. It is no surprise that Australia retains a poor position in terms of taxing insurance premiums, relative to other comparable countries.

## Issue three: Improving the system of funding emergency services – the WA experience

In July 2003, the WA government improved the system of funding emergency services in WA with the replacement of the old insurance contributions taxes with the more equitable system of the Emergency Services Levy (ESL). The ESL is a State government charge levied on rates and notices issued by local government, with 100% of the proceeds of the levy remitted back to the fire and emergency services. The ESL is expected to raise around \$160 million for the WA fire and emergency services in 2007/08.

Under the old system, those who were uninsured avoided paying for the fire and emergency services. The old system also lacked transparency – with households unable to ascertain what their contributions were and how much they paid in total.

That changed in 2003 with the introduction of the new system. Now WA households pay for emergency services according to their property's value and where their



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property is. Property owners that enjoy greater service levels pay more (e.g. in metropolitan Perth) with the new system also ensuring that minimum and maximum charges apply. That way, everyone makes a fair contribution with those at the top not having to pay too much. All in all, the new system is fairer, more transparent and ensures that WA emergency services are well resourced to do their important work.

The WA model should be copied by the States and Territories to fund their emergency services systems. With the onset of climate change, the need for a more comprehensive, fairer and more transparent system of emergency services funding is needed in all of Australia.

## Issue four: Implementing HIH Royal Commission recommendations

The report into the HIH Royal Commission was handed down in April 2003. In his final report, the Commissioner, the Hon. Justice Owen recommended:

- That state and territory governments abolish stamp duty on general insurance products;
- That in those states that have not already done so, fire services levies be abolished;
- That state and territory governments exclude the cost of the GST for the purposes of calculating stamp duties or any other state or territory levies that are imposed on insurance premiums.

None of the above recommendations have been adopted as yet by Australian governments. And despite Justice Owen's recommendations, subsequent reviews in 2003 and 2004 into fire levies by the Victorian and NSW governments retained their use.